

709 - 8th Avenue S.W.
Calgary, Alberta, Canada T2P 1H5

To Our Shareholders:

Home Oil Company Limited ("Home") has made an offer dated April 9, 1974, as amended April 26, 1974 (the "Offer"), to purchase all of the Common Shares of your Company at \$27 per share (Canadian). The Board of Directors of the Company makes no recommendation as to whether you should accept or reject the Home Offer. However, the Board considers it important to bring certain matters to your attention, which you may wish to consider in making any decision with respect to the Offer.

We wish to advise you that three members of Scurry's Board of Directors, who own a total of 189,210 Common Shares, intend to tender virtually all their Common Shares pursuant to the Offer. The remaining members of the Board of Directors, who own a total of 55,520 Common Shares, have no present intention of tendering their shares in response to the Offer. These members of the Board intend to review their individual positions promptly after May 13, 1974, when Home, if 900,000 Common Shares have not been tendered, has the option of waiving the condition of receiving at least 900,000 Common Shares or withdrawing the Offer.

Your Company's near-term financial position and earnings prospects are excellent. Unaudited results for the six months ended March 31, 1974, as compared with the similar period for 1973, are as follows:

	(Unaudited) Six months ended March 31	
	1974	1973
Sales revenue.....	\$5,382,000	\$4,485,000
Cash flow.....	\$3,649,000	\$2,848,000
Net earnings before tax.....	\$1,308,000	\$ 549,000

You should consider the fact that the above figures do not reflect the recently increased selling prices of the Company's oil and gas. Thus, the Company will realize an average crude oil selling price of \$4.29 per barrel during the current fiscal year and \$5.05 per barrel thereafter as compared with an average price of \$3.08 per barrel during fiscal 1973. On the basis of the contract renegotiations completed to date, the Company's natural gas production will be sold for an average price of 25¢ per mcf in fiscal 1974 as compared with 17¢ per mcf in fiscal 1973. As a result of a recent arbitration award, the average natural gas selling price received by the Company will be increased to 39¢ per mcf in fiscal 1975 and 59¢ per mcf in fiscal 1976. The arbitration award, which involved a major producer and TransCanada PipeLines Limited, a major purchaser of natural gas in Alberta, set the wellhead price of natural gas at 60¢ per mcf starting November 1, 1974 and 73¢ per mcf starting November 1, 1975.

Based on the increased prices for oil and gas, and assuming no change in natural gas or crude oil prices as a result of a Canadian federal or provincial government action or other causes, your management believes

that cash flow to the Company for the fiscal year ending September 30, 1975 will be almost \$11 million as compared with approximately \$6 million for the year ended September 30, 1973. Your management also believes that net income will substantially increase during this period.

To assist you in making your own evaluation of the Company's present worth and future potential, we present the following summary of Company assets at March 31, 1974. All of the asset figures given below (reserves, acreage and dollar amounts) are net to the Company after deducting royalty charges, minority interests in subsidiaries and interests held by other companies. The coal reserves attributable to a 50% option interest of another company have been excluded.

Proven developed oil and gas reserves		
Crude oil and natural gas liquids.....	bbl	18,041,000
Natural gas.....	mcf	83,907,000
Proven undeveloped coal reserves		
Coking coal.....	tons	157,450,000
Thermal coal.....	tons	179,875,000
	tons	<u>337,325,000</u>
Undeveloped oil and gas acreage.....	acres	5,123,000
Working capital.....	\$	6,474,000
Investments and other assets.....	\$	5,222,000
Long-term debt (of which \$16,874,000 is represented by		
7¼% Convertible Subordinated Debentures).....		\$ 17,758,000
Shares outstanding at March 31, 1974.....		2,618,261

The Home Offer arrives at a time when the Directors cannot give you a definitive assessment of two critical areas of potential growth for the Company—its interest in the North Sea and its coal properties. If either of these prove out on a meaningful scale—as to which no assurance can be given—your Directors believe that the value of your Company will be materially increased.

As we have announced to shareholders in the past, the Company holds a 20% interest in Block 3/7 in the East Shetlands Basin in the northern part of the United Kingdom sector of the North Sea. In our last Annual Report, reference was made to two exploratory wells located within three miles of the boundaries of our Block 3/7. Since that Report and prior to the date of the original Home Offer of April 9, 1974, the operators announced that both of these wells resulted in major oil discoveries, now named the Ninian Field. Both of these discoveries are located on a large seismic structure which extends into Block 3/7. In this connection, you may wish to refer to Home's Offer, as amended, which sets out developments affecting our North Sea block. The close proximity of the discoveries, together with the seismic indication that the structure extends into Block 3/7, has enhanced the Company's prospects on this Block. Whether Block 3/7 will be productive, and if so, its extent and significance, can only be determined by future drilling operations.

In the Dutch North Sea, the Company has recently completed the acquisition of a 2.5% interest in approximately 1,200,000 acres which comprise 12 license blocks. An exploratory well is currently drilling on one of these blocks. Another well is currently drilling on an adjoining block on a common structure to which the Company is contributing part of the drilling costs. The operator of this well recently announced pre-

liminary test results which indicated a significant light oil discovery with flow rates up to 4,500 barrels of oil per day. Negotiations are currently underway to drill a follow-up well this summer on the same structure in which the Company will be a participant. A further well is scheduled to be drilled on a block of Company acreage this summer. As with Block 3/7, the determination of whether the Company's Dutch North Sea interests will be productive can only be determined by drilling operations.

Your Directors have reported to you from time to time on the Company's acquisition and exploration of coal reserves. The large increase in the international selling price of crude oil has had the indirect result of creating a substantial increase in the demand for thermal coal to replace high-priced crude oil in the generation of electricity. Successful development of the Company's coal properties is dependent on a number of factors: first, maintenance of a United States governmental policy that has placed an increasing emphasis on coal as an alternative to crude oil as a source of fuel; second, the Company's ability to enter into agreements to sell its coal at prices which permit the commercial development of its properties; and third, the Company's ability to raise additional capital to finance any development. The Company has agreed with its 50% partner to supply a 25,000 ton test shipment to a major Canadian electric utility during 1974. If these tests are satisfactory to the utility, which should be determined by the fall of this year, and if a satisfactory selling price can be agreed upon, the Company's partner will enter into active negotiations on behalf of the Company and itself looking toward a long-term agreement to supply coal to this utility. The Company has also had preliminary discussions with a group of foreign steel companies with respect to the possible development of its reserves of coking coal. Your Directors are, of course, not in a position to predict the outcome of any of these events.

We hope that you will carefully consider the material set forth in this letter.

By Order of the Board of Directors.

Yours very truly,

PETER ABT,
President.

May 2, 1974.

